



مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

SECTORAL REPORT

MONEY LAUNDERING AND TERRORISM FINANCING RISK ASSESSMENT



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INTRODUCTION



The Federal Decree-Law No. (20) of 2018 on Anti Money Laundering and Combatting the Financing of Terrorism and Financing of Illegal Organizations (otherwise known as the “AML Law”) and its implementing regulation, Cabinet Decision No. (10) of 2019 concerning the Executive Regulation of Decree Law No. (20) of 2018 on Anti Money Laundering and Combatting the Financing of Terrorism and Illegal Organizations (otherwise known as the “AML/CFT Decision” or the “Cabinet Decision”) were enacted to set out controls for the detection and prevention of money laundering and terrorist financing (ML/TF) activities, thereby safeguarding the integrity of the UAE’s financial system.

The UAE is deeply committed to combatting money laundering and the financing of terrorism and illegal organisations. To this end, the Competent Authorities have established the appropriate legislative, regulatory and institutional frameworks for the prevention, detection and deterrence of financial crimes, including ML/FT. They also continue to reinforce the capabilities of resources committed to these efforts and improving their effectiveness, by implementing the internationally-accepted AML/CFT standards recommended and promoted by FATF, MENAFATF and other FSRBs, as well as by the United Nations, the World Bank and the International Monetary Fund (IMF).


As part of these efforts, the Competent Authorities of the UAE have taken substantive actions, including:

- Enhancing the federal legislative and regulatory framework, embodied by the introduction of the new AML/CFT Law and Cabinet Decision, which incorporates FATF Recommendations;

- Conducting the National Risk Assessment (NRA) and additional topical risk assessments on key areas identified in the NRA to identify and assess the ML/FT threats and inherent vulnerabilities to which the country is exposed, as well as to assess its capacity to combat ML/FT at the national level; and
- Formulating a National AML/CFT Strategy and Action Plan which incorporates the NRA results, which is designed to ensure the effective implementation, supervision, and continuous improvement of a national framework to combat ML/FT, and which provides the necessary strategic and tactical direction to the country's public and private sector institutions.

As part of the Central Bank of the UAE's (CBUAE) risk-based and data-driven approach to the supervision of all banks, exchange houses, finance companies, registered Hawala service providers and insurance companies, the analysis of quantitative inherent risk data collected by the CBUAE in its 2020 AML/CFT Data Collection Survey has presented heightened ML/TF risks in the financial sector. This resulted in the CBUAE developing further guidelines in higher risk areas, such as:

1	AML/CFT Guidance for Licensed Financial Institutions (LFIs) on Suspicious Transaction Reporting	5	AML/CFT Guidance for Registered Hawala Providers and for Licensed Financial Institutions providing services to Registered Hawala Providers
2	AML/CFT Guidance for Licensed Financial Institutions providing Services to Legal Persons and Arrangements	6	AML/CFT Guidance for Licensed Financial Institutions on Transaction Monitoring and Sanctions Screening
3	AML/CFT Guidance for Licensed Financial Institutions providing services to the Real Estate and Precious Metals and Stones Sectors	7	AML/CFT Guidance for Licensed Financial Institutions providing services to Cash-Intensive Businesses
4	AML/CFT Guidance for Licensed Financial Institutions on the implementation of Targeted Financial Sanctions	8	AML/CFT Guidance for Licensed Financial Institutions on the risks related to PEPs and High-risk Jurisdictions



The CBUAE prioritised the supervision of sectors deemed as ‘high risk’ after conducting its individual institution-level risk assessments. These used a variety of sources, including AML/CFT supervisory experience, domestic and international guidance, inherent risk indicators and control assessments, and focussed on targeted and thematic reviews, based on risks and the control factors of entities in each of its sectors.

The CBUAE will continue to improve its understanding of the risks associated with the Financial Institution sectors, and will inform the reporting entities of risk indicators, trends and emerging issues.

The Sectoral Risk Assessment (SRA) is dynamic; risk indicators, trends and emerging risks are identified through monitoring tools and the use of updated ML/FT and PF data collected by the sector. The SRA will continue to be updated, expanding substantially on the analysis of sectoral vulnerabilities provided in the 2019 update to the National Risk Assessment (NRA).



PURPOSE

The purpose of conducting the SRA had the following objectives:



Strengthen the Supervisory Authorities' understanding of regulated sector vulnerabilities and threats;



Assist Competent Authorities in their comprehension of particular ML/FT/PF risks within the UAE; and



Guide Licensed Financial Institutions on the specific risks relevant to their sector or sub-sector.

BACKGROUND – SUPERVISORY FRAMEWORK FOR AML/CFT

The CBUAE adopts a Risk-Based Approach (RBA) in its AML/CFT supervision of the financial sector. The general principle of risk-based supervision is that supervisory engagement (whether through on-site examination, off-site reviews, or other interventions) is intensified according to the ML/FT/PF risks presented by the different segments of those sectors. The CBUAE's supervisory attention and resources will focus on regulated entities that present higher ML/TF/PF risks, while maintaining adequate and appropriate levels of engagement with financial sectors that present lower ML/TF/PF risks.

METHODOLOGY

The CBUAE implemented a formal process for assessing ML/TF/PF risks within the financial sector, using a ML/TF/PF Risk Assessment Model (the Model) - an in-house analytical tool that provides a formal and systematic process for assessing the level of ML/TF/PF risks in a consistent way across all LFI.

The Model begins with assessing the LFI's inherent risks by utilising the number of KRIs under 38 themes. The themes are classified into six key risk factors: business, customers, products and services, delivery channels, geographic, and terrorism and proliferation financing.

The weighted average was calculated for key risk factors, producing a final inherent score. Each LFI was equally weighted, and an average risk score determined the overall inherent risk rating for the sub-sector.

The Model assesses the quality of LFI controls in place, including overall AML/CFT controls, oversight by Senior Management and Board of Directors, a business-wide risk assessment, CDD/KYC and Customer Risk Assessment, enhanced CDD, monitoring/reporting framework, STR reporting, Targeted Financial Sanction obligations, record-keeping, and outsourcing arrangements.

Control effectiveness scores are derived for each LFI after analysing the control assessment. Each LFI was equally weighted, and an average risk score determined the overall control effectiveness rating for the sub-sector.

The ML/TF/PF residual risks are then assessed utilizing a 4x4 risk matrix in line with ratings (High, Medium-High, Medium and Low).

The table illustrates the risk matrix with ratings (High, Medium-High, Medium and Low).

INHERENT RISK	High	Medium	Medium High	High	High
	Medium High	Medium	Medium	Medium High	High
	Medium	Low	Medium	Medium	Medium High
	Low	Low	Low	Medium	Medium High
		Effective	Largely Effective	Partially Effective	In-Effective / No Control
		← CONTROL EFFECTIVENESS →			

KEY VULNERABILITIES

The sectoral risk assessment focusses on ten key ML/TF/PF potential vulnerabilities impacting reporting entities in all sectors. The common vulnerabilities assessed are drawn from CBUAE's detailed sectoral risk assessment exercise. Those presented in the table below are in no particular order, and the assessment of each sub-sector will prioritise these vulnerabilities differently.

Vulnerabilities

1	Use of high risk products
2	International Payments and cross border activities, including cash-to-cash money transfer for exchange houses
3	International trade and trade-based money laundering (TBML)
4	New Payment Technology and digital channels (NPT)
5	Complex ownership structure
6	High-Risk Customers
7	High-Risk Jurisdictions
8	Money Service Businesses (MSBs)
9	High-Risk DNFBP sector (Real Estate, Dealers of precious metals and stones / golds etc.)
10	Large Cash-Based Economy

Examples of some of the key ML/FT typologies with which FIs should be familiar are outlined in the Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organisations Guidelines for Financial Institutions¹.

¹ https://www.centralbank.ae/sites/default/files/2021-08/CBUAE%20Guidelines%20on%20AML-CFT%20for%20FIs%20June%202021_1.pdf



BANKING

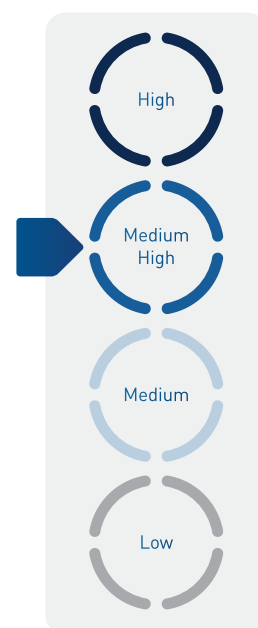
SUB-SECTOR

RISK ASSESSMENT SUMMARY

Inherent Risk Profile

The CBUAE noted that the banking sector carries inherently high risks in the areas of customer risk, products, services & transactions risk, and geographic risk. Factors such as customers from high-risk segments (e.g. DNFBPs, PEPs, HNWLs, cash-intensive business, money or value transfer services (“MVTs”), free zones, general trading companies, and non-resident customers), intrinsically high-risk products offerings (cross border wire transfers, instant money transfer service) and correspondent relationships in high-risk jurisdictions explain the Inherent Risk Rating as **Medium-High** for the banking sector.

Inherent Risk Rating



Control Assessment

The CBUAE conducted a granular control assessment for all LFIs in the six key risk areas mentioned in the table below. The banking sector has weak controls in the following areas:

RISK FACTORS	CONTROLS AREAS THAT REQUIRE IMPROVEMENT
Business Risk	AML/CFT Risk Assessment
Customer Risk	Screening, including KYC and Periodic Refresh
Products, Services & Transactions Risk	Transaction Screening and Monitoring Systems, and related procedures and training
Geographic Risk	Country / Geographic Risk Matrix Oversight on Transactions to or from high-risk jurisdictions
Delivery Channels Risk	Delivery Channel Risk Assessment
Terrorism Financing & Proliferation Financing	Policies, Preventive and Detective Controls, and Scenarios

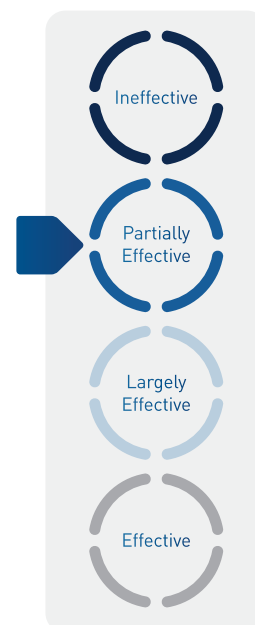
The control effectiveness assessment in the sector suggests that the controls need to be strengthened further. The outcome of the assessment is appropriately reflected in the effectiveness rating of “**Partially Effective**” from the risk assessment model used.

Residual Risk

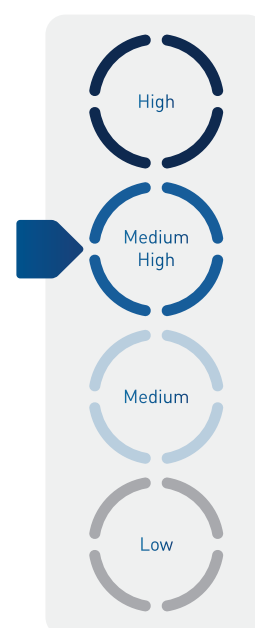
Based on the residual risk table provided in the Methodology section, an inherent risk rating of Medium-High combined with a control effectiveness rating of Partially Effective, yields a residual risk rating of Medium-High for the banking sector.

Due to the enhancements noted in the control environment, the banking sector’s residual risk rating has improved from High (National Risk Assessment Rating – 2019) to **Medium-High**.

Control Effectiveness Rating



Residual Risk Rating





EXCHANGE HOUSE

SUB-SECTOR

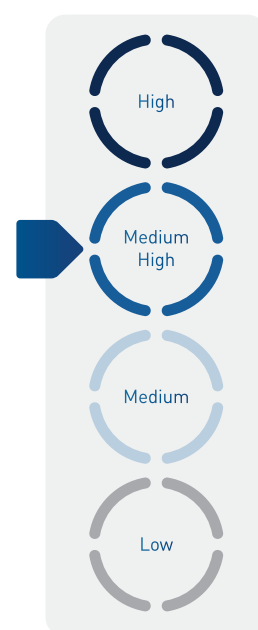
RISK ASSESSMENT SUMMARY

Inherent Risk Profile

The exchange house sector plays a pivotal role in the UAE's financial landscape. It supports the country's economic activity by serving an expatriate population for home and other remittances, trade transactions in the SME segment, and catering to the needs of large number of tourists that visit the country each year.

Factors such as customers from high-risk segments (including free zones, general trading companies and non-resident customers), intrinsically high-risk products offerings (cross-border wire transfers, instant money transfer service, currency exchange), exposure to cash settlements, and correspondent relationships in high-risk jurisdictions, explain the Inherent Risk Rating of **Medium-High Risk** for the exchange house sector.

Inherent Risk Rating



Control Assessment

The CBUAE conducted a granular control assessment for all LFIs in the six key risk areas as mentioned in the below table. It noted that the exchange house sub-sector has weak controls in the following areas:

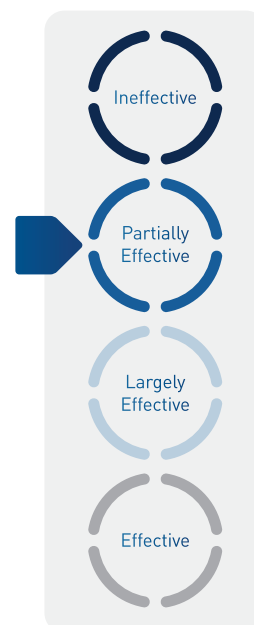
RISK FACTORS	CONTROLS AREAS THAT REQUIRE IMPROVEMENT
Business Risk	AML/CFT Risk Assessment and board oversight
Customer Risk	Screening including KYC and Periodic Refresh
Products, Services & Transactions Risk	Transaction Screening and Monitoring Systems, and related procedures and training
Geographic Risk	Country / Geographic Risk Matrix Risk classification and Oversight on Transactions to or from high-risk jurisdictions
Delivery Channels Risk	Delivery Channel Risk Assessment
Terrorism Financing & Proliferation Financing	Policies, Preventive and Detective Controls, Scenarios and training

The control effectiveness assessment in the sector suggests that the controls need to be strengthened further. This outcome is appropriately reflected in the effectiveness rating of “**Partially Effective**” from the risk assessment model used.

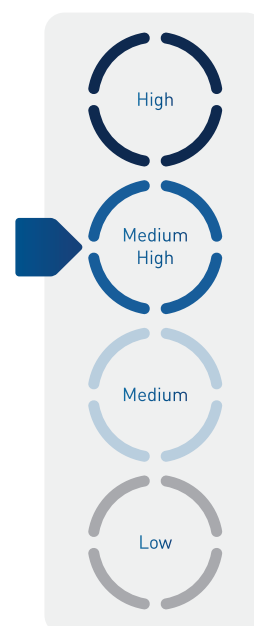
Residual Risk

Based on the residual risk table provided in the Methodology section, an inherent risk rating of Medium-High combined with a control effectiveness rating of Partially Effective, yields a residual risk rating of **Medium-High** for the exchange house sector.

Control Effectiveness Rating



Residual Risk Rating





FINANCE COMPANIES

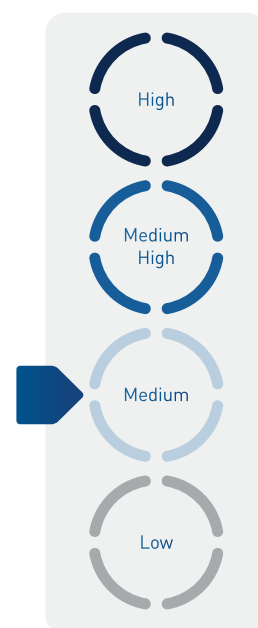
SUB-SECTOR

RISK ASSESSMENT SUMMARY

Inherent Risk Profile

The finance company sector in the UAE is relatively small, compared to other mainstream financial sectors operating in the country. The inherent risk rating of “**Medium**” for the finance company sub-sector meets expectations, as the exposure of the sector to high-risk customers, products, geographies and delivery channels is minimal.

Inherent Risk Rating



Control Assessment

The CBUAE conducted a granular control assessment for all LFIs in the six key risk areas as mentioned in the table below. The Finance company sub-sector has weak controls in the following areas:

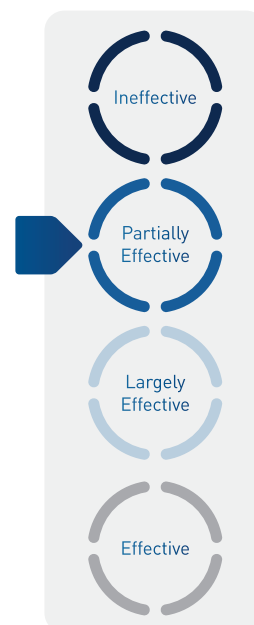
RISK FACTORS		CONTROLS AREAS THAT REQUIRE IMPROVEMENT
Business Risk	⌘	AML/CFT Risk Assessment and board oversight
Customer Risk	⌘	KYC Program and Periodic Refresh
Products, Services & Transactions Risk	⌘	Transaction Screening and Monitoring Systems and related procedures and training
Geographic Risk	⌘	Country / Geographic Risk Matrix
Terrorism Financing & Proliferation Financing	⌘	Customer Name Screening Systems

The control effectiveness assessment in the sector suggests that the controls need to be strengthened further. This outcome is appropriately reflected in the effectiveness rating of “**Partially Effective**” from the risk assessment model used.

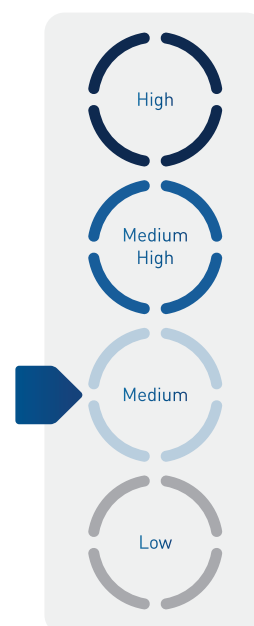
Residual Risk

Based on the residual risk table provided in the Methodology section, an inherent risk rating of Medium, combined with a control effectiveness rating of Partially Effective, yields a residual risk rating of **Medium** for the Finance Companies sector.

Control Effectiveness Rating



Residual Risk Rating





INSURANCE

SUB-SECTOR

RISK ASSESSMENT SUMMARY

Introduction

The Insurance Authority (IA) was historically the UAE body responsible for the licensing and monitoring of insurance companies, brokers, and agents on the mainland, for compliance with their obligations under AML/ CFT Legislation and its Implementing regulations.

In early 2021, the CBUAE took over all IA obligations to regulate the UAE's insurance industry, including overseeing its compliance with the AML/CFT framework.

The UAE life insurance market is a dynamic sector, offering life and investment products to its customers and providing competition for other parts of the financial services industry. Participants in this sector include insurance companies, brokers, and agents.

Inherent Risk Rating

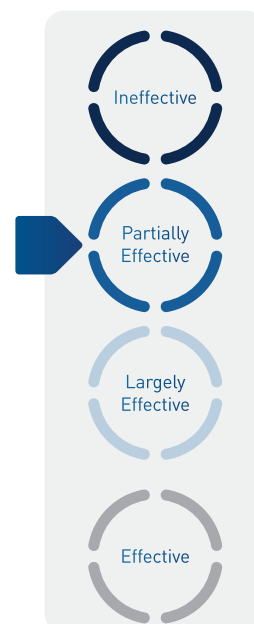


Control Assessment

The CBUAE conducted an assessment of the existence and effectiveness of AML/CFT controls, including the overall AML/CFT control environment, oversight by senior management and Board of Directors, business-wide Risk Assessment, CDD/KYC and Customer Risk Assessment, enhanced CDD, monitoring and reporting framework, STR reporting, TFS-related controls, record keeping, and outsourcing arrangements.

The control effectiveness assessment in the insurance sector suggests that the controls need to be strengthened further. This outcome is appropriately reflected in the effectiveness rating of “**Partially Effective**” from the risk assessment model used.

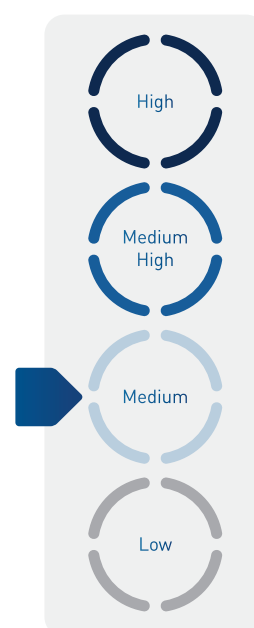
Control Effectiveness Rating



Residual Risk

Based on the residual risk table provided in the Methodology section above, an inherent risk rating of Medium combined with a control effectiveness rating of Partially Effective, yields a residual risk rating of **Medium** for the life insurance sector.

Residual Risk Rating





HAWALA

SUB-SECTOR

RISK ASSESSMENT SUMMARY

Introduction

In 2021, the CBUAE regularised the Hawala sector in the UAE, and is responsible for the licensing and monitoring on the mainland of Hawala' compliance with their obligations under the AML/CFT Legislation and its Implementing regulations.

Inherent Risk Rating



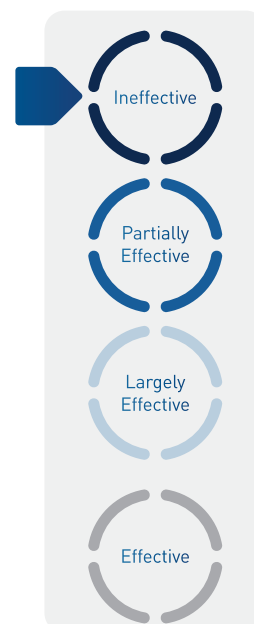
Control Assessment

The CBUAE conducted an assessment exercise of the existence and effectiveness of AML/CFT controls, including the overall AML/CFT control environment, oversight by senior management and Board of Directors, business-wide Risk Assessment, CDD/KYC and Customer Risk Assessment, enhanced CDD, monitoring and reporting framework, STR reporting, TFS-related controls, record-keeping, and outsourcing arrangements.

Since there was no assessment conducted to check the effectiveness of controls in the Hawala sector, the CBUAE has marked all regulated hawala service providers as **'ineffective/no control'**. The overall control effectiveness rating for Hawala sector is thus 'ineffective/no control'.

It is important to note that the SRA was conducted prior to on-site examinations in the Hawala sector.

Control Effectiveness Rating



Residual Risk

Based on the residual risk table provided in the Methodology section above, an inherent risk rating of High combined with a control effectiveness rating of Ineffective, yields a residual risk rating of **High** for the Hawala sector.

Residual Risk Rating



RISK MITIGATION STRATEGIES

SUPERVISORY INTERVENTIONS	RISK MITIGATION PLAN
Risk-Based Supervisory Plan	 <p>Following the introduction of the Risk-Based Supervision Framework, the CBUAE prioritised LFIIs using a risk-based approach for full-scope on-site examinations (also referred to as “baseline” examinations), based on the results of a CBUAE AML/CFT risk assessment exercise.</p>
Thematic Reviews on Emerging Risks	 <p>The CBUAE identified emerging risk themes in the UAE, using the risk assessment exercise outcomes. Its thematic review covered LFIIs at heightened exposure to those emerging risk themes to understand their risk mitigation strategies.</p>
Workshops and Outreaches	 <p>The CBUAE ensured continuous engagement and dialogue with the financial sector on key topics, to impart deeper knowledge and understanding of emerging risks and AML/CFT developments. These mainly involved issues identified during the sectoral risk assessment.</p>
Guidance in Key Areas	 <p>Building on the sectoral risk assessment outcome, the CBUAE identified key areas where the sector required guidance and clarity on regulatory expectations.</p> <p>The CBUAE also issued guidance documents to strengthen the sector’s understanding of the issue, and to make the regulator’s expectations transparent.</p>
Sectoral Risk Assessment Outreach	 <p>Following the Sectoral Risk Assessment, the CBUAE conducted outreach sessions with the banking, exchange house, finance companies, insurance and registered Hawala service provider sub-sectors to convey the learning. The CBUAE paid special attention to educating each sub-sector on relevant emerging risks.</p>

APPENDIX 1 – GLOSSARY/ ACRONYMS

AML/CFT	↔	Anti money laundering and countering the financing of terrorism or illegal organisations
CBUAE	↔	(The) Central Bank of the UAE
CDD	↔	Customer due diligence
DNFBP	↔	Designated Non-Financial Business and Professions
FATF	↔	Financial Action Task Force
FSRB	↔	FATF Style regulatory body
HNWI	↔	High net worth individual
IMF	↔	International Monetary Fund
KRI	↔	Key risk indicator
KYC	↔	Know your customer
LFI	↔	Licensed Financial Institution(s)
MENAFATF	↔	Middle East and North Africa Financial Action Task Force
ML/TF/PF	↔	Money laundering, terrorist financing and proliferation financing
MSB	↔	Money Service Businesses
MVTS	↔	Money or value transfer services
NPT	↔	New Payment Technology
NRA	↔	National Risk Assessment
PEP	↔	Politically-exposed person
RBA	↔	Risk-Based Approach
SME	↔	Small and medium-sized enterprises
SRA	↔	Sectoral Risk Assessment
STR	↔	Suspicious transaction report
TBML	↔	Trade-based money laundering
TCSP	↔	Trust or Company Service Provider
TFS	↔	Targeted Financial Sanctions (United Nations)
UAE	↔	The United Arab Emirates